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Bahrain: Facing an Uncertain Future

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An Intelligence Assessment

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*NESA 86-10021
April 1986*

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An Intelligence Assessment

This paper was prepared by [] Office
of Near Eastern and South Asian Analysis. It was
coordinated with the Directorate of Operations. []

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Comments and queries are welcome and may be
directed to the Chief, Persian Gulf Division, NESAs,

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Key Judgments

*Information available
as of 19 March 1986
was used in this report.*

Popular discontent is rising in Bahrain, fed by the Gulf's economic recession, sectarian rivalries, the lack of avenues for political expression, [] Compounding the problem, the ruling Al Khalifa family faces the continuing threat of Iranian-sponsored terrorism. The United States has major interests in Bahrain—Manama offers home port facilities to the US Navy and pre-positioning of some military equipment. These equities will be at serious risk over the long term if current trends toward instability on the island continue. []

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The complaints against the ruling family come increasingly from all sectors of Bahraini society, suggesting that the Al Khalifa regime could face a serious threat in the next five years. []

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[] Leaders of Bahrain's business and professional communities also are becoming more outspoken about the government's mishandling of the economy and the need for political reform. []

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The recession and the fall in oil prices are seriously straining Bahrain's already troubled economy. Government revenues, which are based for the most part on oil earnings and Saudi aid, will drop further this year, severely restricting the regime's ability to use financial incentives to buy off critics. Unemployment will continue to rise, increasing tensions between the regime and the Shia community, which constitutes 70 percent of the island's population and is economically and politically disadvantaged. The threat to the ruling family will increase if the Shias conclude that they are the victims of renewed political discrimination and economic decline. []

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Bahrain's rulers seem unable to come to grips with the long-term implications of the declining economy and the increased potential for subversion. [] they view the gloomy economic picture as temporary and refuse to acknowledge the need for economic adjustments. They apparently believe that time-honored practices of co-optation and repression will allow them to maintain control and hold the opposition in check. These policies probably will be ineffective if the economy deteriorates dramatically—a distinct possibility if the decline in oil prices is prolonged. The US Embassy in Manama believes—and we concur—that hard times are likely to continue for the next five years. []

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Iranian clerics probably still hope to overthrow the Khalifa family and help a pro-Iranian Islamic government take power in Bahrain. For now, however, Tehran is distracted by the war with Iraq and is not providing significant support to anti-Khalifa factions. Saudi Arabia will continue economic assistance to Bahrain and will watch closely for signs of Iranian-inspired Shia unrest that could spill over into its Shia-populated Eastern Province. Manama's economic woes would become acute if Saudi financial aid dries up. []

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In the short term, we do not believe the regime will respond to internal pressures for political or economic reform, and the situation will probably drift. The regime will try to control spending, but the risk will grow that economic woes, [] or excessive repression will intensify popular resentment of the ruling family. Over the longer term, serious trouble is likely if Bahrain's economic problems continue, and we believe the risk of a Shia uprising will grow over the next five years. The spark for the disaffected Shias to coalesce could come from several sources, including the assassination of a prominent government figure by Iranian-backed dissidents or an Iranian victory in the war with Iraq. []

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The prospect for growing unrest puts US interests in Bahrain at risk. The Al Khalifa family wants the protection that the US military presence provides, although senior family members worry that US regional policies put them at risk both from Iran and from domestic critics. Because of these concerns, it is unlikely that the government will agree to expand the defense relationship or conclude new agreements on pre-positioning US equipment. Manama will, nonetheless, continue to look to Washington for assurances of support against an Iranian threat while it relies on Riyadh to fund military programs. []

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If a new government representing non-Khalifa interests were formed, it would probably be more intensely nationalistic and could seek a less conspicuous US presence on the island. A takeover by radical Shia elements would probably result in an immediate break in relations with Washington and would endanger US personnel and facilities in the country. []

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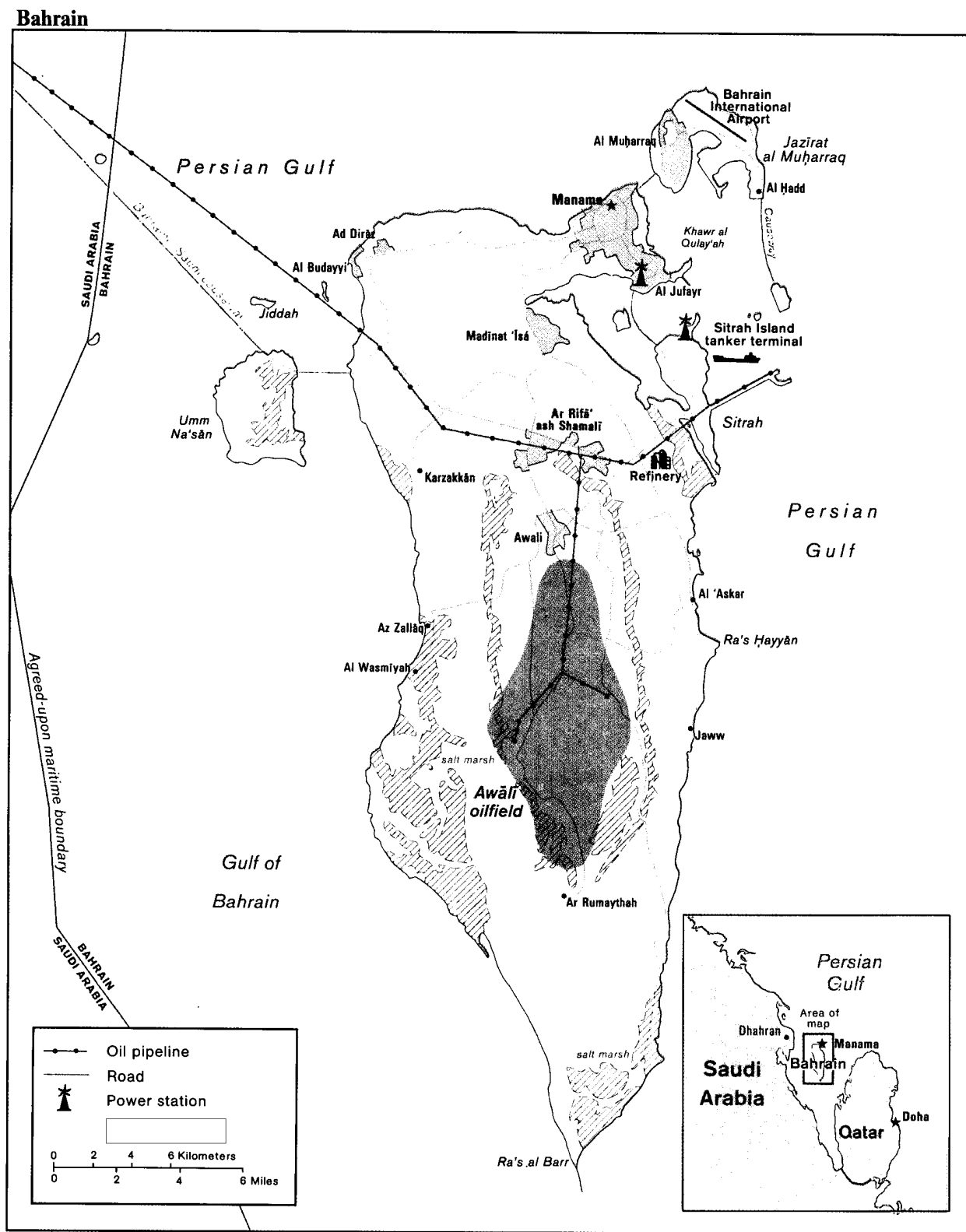
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Bahrain: Facing an Uncertain Future

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The Al Khalifa have ruled Bahrain for more than 200 years by being generous to their friends, tolerant of their critics, and tough on potential dissidents. They have made occasional attempts at reform, although the gestures have been largely cosmetic. We believe the region's current economic hard times, however, are affecting the Al Khalifa's ability to maintain control. The financial tools at the regime's disposal are more restricted than at any time in the 25 years of Amir Isa's rule, and Bahrainis on all rungs of the social ladder are feeling the squeeze.

The Shrinking Pie

The Gulfwide recession has hit Bahrain hard. Government revenues have dropped 20 percent from a peak of \$1.5 billion in 1982, and business activity has lagged significantly. Oil earnings—which account for 70 percent of government revenues—have been declining steadily, and foreign aid receipts, mostly from Saudi Arabia, are falling. Foreign exchange reserves, which have declined by almost \$350 million since 1981, are down to \$1.6 billion and cover only six months of imports.

As a result, the government reduced expenditures in 1985, and additional reductions are likely this year. Manama has announced 5-percent budget cuts for all government departments, reduced subsidies, restricted imports, and raised tariffs and fees for public services. New development projects have been postponed, and payments on existing ones have been stretched out. The government stopped short of imposing new taxes because of growing concern about public discontent. Despite these measures, government revenues have continued to decline, dropping to their lowest level since 1980, according to the Embassy.

Oil and Aid. Oil exports are still the keystone of Bahrain's economy. Oil and oil products from the Bahrain Petroleum Company's (Bapco) refinery account for over 85 percent of the value of Bahrain's

exports and approximately 70 percent of government revenue. US Embassy sources report that the country's oil reserves are rapidly being depleted, however, and the refinery has been operating at a loss for the last two years.

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With limited resources, Bahrain relies heavily on aid from its richer Gulf neighbors, particularly Saudi Arabia. We believe the Saudis, who also face a tight budget, will continue to assist Manama, but the aid will be late and probably less than Bahrain received in 1984 and 1985. Manama receives approximately \$1 billion a year from Riyadh in direct cash subsidies or payments for capital projects such as the causeway linking Bahrain to the Saudi mainland. It also receives grants from a Gulf Cooperation Council fund set up in 1983 to finance arms purchases for Bahrain and Oman. The fund will pay for Bahrain's \$100 million air defense system and other military needs. Reliable sources told US officials earlier this year that Saudi funding earmarked for the purchase of US-made tanks and the construction of a military airfield had been delayed.

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Banking and Finance. The recession is also having a dampening effect on Bahrain's major growth industry, banking and finance. In good times, according to Embassy estimates, the financial sector provides more than 3,000 jobs for Bahrainis—many of them executive positions—and contributes about 16 percent of the country's GDP. The banks are also a source of direct income; they paid fees of nearly \$4 million for licenses in 1982—the last year for which we have statistics.

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US officials reported last year, however, that demand for banking services was declining as the regional recession deepened and that lending opportunities

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were fewer while the risk to lenders was increasing. Moreover, competition from regional banks, in particular those in Saudi Arabia, is growing. We agree with the Embassy that problems in the banking sector are likely to worsen this year as plans for new construction projects are dropped and current projects, such as the Bahraini-Saudi causeway, are completed. []

Bahrain's offshore banking units (OBUs) once were a key to Bahrain's hopes to become an international financial center. In the 1970s and early 1980s, the units flourished, in part because of the collapse of Beirut as a Middle Eastern banking center. Although their focus is international, the OBUs have a significant impact on the local economy by creating substantial employment opportunities for Bahrainis. []

Problems for the units began in 1983 when the Saudi Arabian Monetary Agency began to restrict Bahraini banking activities in the kingdom. Embassy sources claim 80 percent of all OBU activity from Bahrain is focused on Saudi Arabia. As a result, some banks are reducing operations or changing the type of business they do in the Gulf. In 1985 five banks closed their branches in Bahrain, while others announced significant reductions in staff. []

Labor. The recession and government cutbacks are having a serious impact on Bahrain's population. The Embassy reports that personal income among both government and private-sector workers has been frozen since the last general wage increase in January 1982. Unlike their oil-rich Gulf neighbors, many Bahrainis are poor and their poverty is visible, making the economic downturn particularly critical. A source in Bahrain's statistics office told the Embassy in early 1985 that 10 percent of Bahrain's families have incomes below \$1,600 per year. An IMF study in 1983 estimated per capita income at \$12,000, compared to \$21,000 for Kuwait and the United Arab Emirates. Travelers to the area note that the villages of better off Sunnis stand in marked contrast to the predominantly Shia shantytowns, whose lack of development serves as a reminder to the majority Shia population of their second-class status. []

Bapco—Mirror for Bahrain

The problems facing the Bahrain Petroleum Company (Bapco) are typical of Bahrain's economic woes. Reliable sources of the US Embassy have described the refinery as plagued by faulty economic planning, incompetent managers, uneducated and unskilled employees, and obsolescent equipment. The government owns 60 percent of the refinery, which processes all of Bahrain's crude oil as well as crude purchased by the government from Saudi Arabia at OPEC prices. When the refinery operates below capacity—as it has for the past three years—Saudi crude costs more to refine than it can be marketed for. According to Embassy sources, the Saudis refused Manama's requests for a price break in 1984 and will become serious competitors with Bapco when their new refineries at Al Jubayl and Yanbu' al Bahr come on stream. []

In addition to being the country's largest income-generating activity over the last half century, Bapco has traditionally been the largest employer other than the government, and it has trained many Bahrainis who now occupy senior positions in the government and in other industries. It has been an especially important avenue to influence for the Shia community—according to Embassy sources, 70 to 80 percent of its employees are Shias, including many of the top managers. It is grossly overstaffed but is forbidden by the government to fire or lay off any workers. []

Plant managers have told US officials of their growing concern about security threats to the refinery. They are particularly worried about sabotage by disgruntled Shia employees, terrorism by Iranian-backed factions, and Iranian military attacks. The facilities are not well guarded and, in our judgment, are vulnerable to attack. []

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Unemployment has become a serious problem. Embassy sources claim that, for the first time since the 1960s, Bahrainis are having trouble finding jobs. The traditional major employers like Aluminum Bahrain and Bapco have reduced employment by 13 percent over the past two years. According to Embassy estimates, as many as 10 percent of the estimated 70,000 Bahrainis in the work force may be unemployed. []

The problem is most serious for young, unskilled, or semiskilled Bahrainis seeking entry-level jobs. The Embassy estimates that 3,000 to 5,000 young people look for work each year and claims there is little indication they are getting jobs. Unemployment has not yet hit mature workers, most of whom benefit from the government's policy that no employed Bahraini should be fired. The Embassy notes, however, that the idleness of young jobseekers is a source of great concern among all Bahrainis. []

Despite this unemployment, the island continues to employ large numbers of foreign workers, a practice that is generating growing criticism among Bahrainis. According to US Embassy estimates, one-third of the population—estimated at 427,000—and nearly 60 percent of the work force is non-Bahraini. In the private sector, 75 percent of the workers are foreigners, while nearly 33 percent of government employees are expatriates. They are preferred both by government and private-sector employers because they have the skills and/or the willingness to do the jobs natives cannot or will not do. They also are usually cheaper and more docile than native workers. []

The US Embassy reported last year that the government had implemented a Bahrainization program that forced many private firms to hire Bahrainis before they could obtain work permits for expatriates. It also tried to provide vocational education for secondary school graduates. Apparently neither program was successful. []

[] as a result of the Bahrainization program, many young people were given "nonjobs" to satisfy the government, while those completing vocational training still had difficulty finding jobs. []

We believe that the job market in Bahrain will continue to be tight for the next several years. Even if the economy rebounds, the regime will continue to

refuse to hire Shias or Iranian-origin Bahrainis, whom it views as politically unreliable, for managerial or security-related positions. The Embassy claims there is no indication that Manama is prepared to press private-sector employers to replace expatriates with natives, and we believe it will continue to urge companies like Bapco and Bahrain National Oil Company not to promote or hire Shias, particularly in so-called sensitive positions. []

The foreign labor force will be hit hard as well. According to the Embassy, reliable sources predicted in mid-1985 that expatriate labor would decline by about 30 percent over the next year, a reduction of about 24,000 workers. In our judgment, this number is exaggerated, but, even if this many were to leave Bahrain in 1986, there would be no substantial new demand for native Bahrainis because of the economic slowdown and the unwillingness or inability of Bahrainis to take the place of expatriates. []

Political Drift

Bahrain's economic woes are triggering criticism of the ruling family from all sectors of Bahraini society. Aside from attempts to reduce expenditures by cutting the budget, the ruling family is doing little to deal with the recession. US officials [] say the family views the current gloomy economic picture as temporary and refuses to acknowledge the need for meaningful adjustments. [] the apparent inertia in decisionmaking is caused by the illness of the Prime Minister [] and a reluctance by family members to restrain their investment activity. []

The Embassy reports Bahrain's wealthy merchant families are grumbling about having to compete with the Al Khalifa in business, []

[] Calls for a "return" to democracy have appeared in the press. Bahrain had an elected national assembly from 1973

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to 1975, but the Al Khalifa dissolved it following rancorous debate over security laws. Some contacts of the US Embassy are urging that the United States use its leverage with the regime to bring about some form of democracy as a way to safeguard stability.

Al Khalifa Infighting. The Al Khalifa family has never been popular with either its Sunni supporters or the Shia community. The exception to this—and a stabilizing factor for the regime—is Amir Isa, who is generally well liked by Bahrainis and foreign observers. [redacted] the 53-year-old Isa as a generous, good-natured, and accessible ruler who is genuinely concerned about the welfare of his people.

[redacted] the US Embassy says Isa is a shrewd and able leader who deserves much of the credit for the relative stability and prosperity Bahrain has enjoyed since independence in 1971. [redacted]

Isa's chief aide and confidant since he took power has been his brother, Prime Minister Khalifa. US officials have described the relationship between the two men as that of "good cop . . . bad cop." The genial Isa encourages the view that he is remote from the business of governing, while his brother, [redacted] takes responsibility for unpopular decisions and the repression of dissent. [redacted]

The Prime Minister's health problems have drawn attention to this division of roles. In our view, most Bahrainis see the Prime Minister and not the Amir as the prime mover in the government, a characterization we share. Khalifa has been out of the country [redacted] In that time, the government has made no significant policy decisions, [redacted]

Crown Prince Hamad assumed most of the Prime Minister's duties [redacted] The Embassy has called the 36-year-old Crown Prince an unknown quantity but says many Bahrainis apparently see him as more democratically inclined than his

uncle and more amenable to Shia concerns. It is an image that the Crown Prince encourages. For example, Hamad has suggested publicly that he favors restoring some form of consultative assembly, a development his uncle would strenuously oppose. [redacted]

We believe Hamad's interest in limited political reform is genuine, but he also uses the issue to enhance his public image. Reliable sources have told US officials over the years that the Crown Prince resents his uncle's extensive authority and is seeking more power. The Prime Minister, for his part, mistrusts Hamad's penchant for military trappings and, according to the US Embassy, doubts that the Bahrain Defense Force, which a US official has described as the Crown Prince's plaything, needs the equipment Hamad wants to purchase. [redacted]

Although the infighting between the Crown Prince and the Prime Minister is serious, we do not believe either man would endanger the family's interests by an open confrontation. In any event, the Amir would not tolerate an open power struggle between his son and his ailing brother. If anything, Khalifa's illness has forced the family to appear united while giving Hamad an opportunity to act as prime minister. [redacted]

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growth industries provided substantial employment opportunities for native Bahrainis, regardless of family connections, ethnic origin, or religion. Sources described by the US Embassy as sensitive to these distinctions say that the most highly motivated and fastest moving private-sector employees are Bahraini Shias, many of whose families are Iranian in origin. As the economy deteriorates, however, and the Shias continue to bear the brunt of the decline, we believe the Al Khalifa could face a serious threat from the Shia majority. []

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Bahrain's Shias: Long Live Khomeini . . . in Iran.

Shias comprise more than 70 percent of Bahrain's native population of 280,000. In a small country where religion is the primary criterion of social identity, they form a distinct and cohesive community that has a long history of persecution at the hands of the Sunnis. Shia sources who speak to US officials say that Bahrain's Shias generally believe that they are victims of social and economic discrimination and even religious persecution, although the sources are generally reluctant to reveal to outsiders the extent of their unhappiness with the regime. []

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[] Bahrain's Shias say they use religion as a focal point for protest and claim that some, like their Iranian cousins, seek martyrdom for their cause. []

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In our judgment, the political significance of religious identification has intensified in the past decade, both in reaction to the perceived failure of Arab nationalism and, in greater measure, as a result of the Iranian revolution. Arab nationalism, which in its Nasirist and Ba'thist versions appealed to many in the Gulf in the 1960s and 1970s, held little attraction for the Shias who saw it basically as a Sunni Arab ideology. We believe, however, that Bahrain's Shias viewed the fall of the Shah as a vindication of their religion and the establishment of an Islamic republic in Iran as a source of pride and self-esteem. They were proud of the accomplishments of the revolution, and many revered Ayatollah Khomeini. []

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Sectarian Woes

Underlying the country's economic and political woes is the basic faultline that divides Bahrain—the Sunni-Shia split. The Al Khalifa have maintained confessional calm by supporting causes dear to both communities and a relatively tolerant religious environment. Many Shias benefited from the economic expansion of the 1970s and early 1980s, when Bahrain's new

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Some of this enthusiasm has waned, according to Embassy sources. Many in Bahrain's Shia community are wary of the regime in Iran as they witness the chaos and destructiveness that has accompanied the introduction of clerical rule. We believe the majority still subscribe to the goals of the Khomeini regime, and Bahraini officials say many send money to Iran, but US Embassy reporting suggests, and we concur, that most favor moderate, homegrown fundamentalist religious organizations. These offer a local refuge and simple solutions to what seem to be overwhelming social tensions, as well as providing a legitimate means of voicing political opinions without bringing down the heavy hand of the security forces. We believe that a smaller number of Shias are activist-minded and looking for an opportunity to confront the

regime. These are probably younger Shias who are willing to follow fundamentalist leaders intent on using religion to demonstrate their opposition to the Sunni Al Khalifa family. [REDACTED]

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The Merchant Families. Bahrain's Shias appear to have no central leadership or organization that guides or directs them. We believe there is no Bahraini figure who commands widespread Shia loyalties as Ayatollah Khomeini did in Iran before the revolution. Leadership in the Shia community has long been held by a dozen wealthy families who act as sponsors and mediators between the mass of poorer Shias and the

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Who Are the Shias?

Although the Al Khalifa claim that Sunnis and Shias each constitute half of the population of Bahrain, reliable observers have told US officials that more than 70 percent of native Bahrainis are Shia and the balance are Sunni, and that most Bahrainis believe the Shias have a higher birthrate. The Shias are divided ethnically into two communities—the Arab, or Baharna, who were the original inhabitants of the islands, and the Iranians, families of Persian origin who migrated to Bahrain from southern Iran beginning in the late 18th century because of the islands' relative tranquillity and stability. []

Little is known about the origins of the Baharna or their conversion to Shia Islam. They were an ancient Gulf people, centered in Bahrain and in Saudi Arabia's Eastern Province. Many trace their origins to Iraq or Iran or have family ties in those countries. The Al Khalifa's bloodless conquest of the island in 1782 brought little change to the Baharna natives. Excluded from power when Persia dominated Bahrain, they began paying taxes to their new Sunni overlords but were otherwise allowed to go their own way. The majority continued to live in small villages in the north and west, working in agriculture, fishing,

and pearling. Today, they form the bulk of the work force in Bahrain's basic industries. []

Until the Iranian revolution, most Bahraini Shias probably benefited from the regime's benign neglect, but they felt little loyalty to the Al Khalifa family. The Al Khalifa fostered a liberal religious climate and protected the Shias from the religious intolerance of the Sunni Wahhabi movement, which spread outward from the Arabian Peninsula in the 19th and early 20th centuries. Bahrain's prominent Shia merchant families also benefited from the liberal economic and political environment that Amir Isa encouraged when he came to power in 1961. Families such as the Urayids, Al Alis, Al Saffars, Al Bualis, Al Jishis, Al Alawis, and Al Baharnas grew rich because of their contacts with the ruling family. We judge that they still believe their interests are best protected by remaining loyal to the regime. These wealthy merchant families usually support the Al Khalifa government on land, trade, and labor issues that generally work against the best interests of the majority of Shias who are poor, rural-based, and unskilled. []

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government. In return for their loyalty and support, the regime has given these families lucrative business opportunities and some positions in the government, including five of 17 Cabinet posts. []

As Shia economic grievances have grown, however, we believe that the close association of these prominent families with the Al Khalifa has cost them much of their influence and is contributing to the deepening tension between the rich and the rest of Bahrain's Shias. The Embassy reports that most leading families are trying to ingratiate themselves with the larger Shia community, and that nearly all have younger members who are associating with religious groups and showing solidarity with the new currents of religious revival and militancy. []

[] the wealthy Shia families are funding dissident factions as a way of protecting themselves. []

Despite these efforts, the Embassy believes—and we agree—that the top Shia families will be unable to win back influence or authority in the community. Instead, we expect the cleavage between the wealthy Shias and the Shia masses to widen, particularly if there is a serious downturn in the economy. []

The Clerics. The other major source of leadership in the Shia community has been provided by clerics. The Embassy reports that religious leadership is invested in five to 10 respected clerics who live in the traditional Shia villages and who come from old-line Bahraini Shia families. They enjoy a following by virtue of their long years of study, living upright Islamic lives, and taking "just" and usually apolitical stands on

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Propaganda found in Islamic Enlightenment Society following its closure. [redacted]



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issues of the day. A wider group of about 100 Shia teachers (called mullahs) are responsible for preaching in mosques and *ma'atim* (burial societies), according to the Embassy. [redacted] their sermons as strongly anti-Western and apocalyptic in tone. They speak with strong feeling on reputed prophecies from the time of the Prophet that great and revolutionary events are at hand. According to US officials and academic specialists, Shia clerics are not state supported, as Sunni religious leaders are, but receive stipends from the Shia community. They are educated locally, but many travel to Iraq and Iran to study at Shia shrines. [redacted]

One Bahraini cleric has been actively involved in organizing both overt and clandestine activities in the Shia community and may be building the kind of mass appeal necessary to challenge the regime. Isa Ahmad Qassim is a native Bahraini who probably studied under Khomeini while both were in An Najaf, Iraq, in the 1960s. He may also have received instruction from the founder of the Iraqi Islamic Call (Dawa) Party, Muhammad Baqr al-Hakim. On his return from Iraq in 1974, Qassim and other young clerics took over a Shia club in Bahrain, transforming it from

a sports and social hall into a religious and cultural center called the Islamic Enlightenment Society. They also founded the Dawa Party in Bahrain. [redacted]

The society became the only overt Shia institution of national scope, and, according to the Embassy, it soon became the focus of the Shia awakening in Bahrain. It offered religious instruction for all age levels, and the Embassy reports it sponsored training in Iran for particularly promising young men. The center was located in Ad Diraz, a Shia village about 15 kilometers west of the capital, and worked in alliance with Shia mullahs throughout the country. The Embassy estimates that half of the country's religious teachers were closely associated with it. The government closed the Islamic Enlightenment Society and arrested its leaders in early 1984 when it uncovered evidence that the center was being used as a cover for clandestine activities by the Dawa Party. Despite pressure from Shia leaders, the government refuses to allow the society to reopen, but Qassim is still active in Bahrain as a prominent Shia preacher. [redacted]

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The Middle Class. In our judgment, Bahrain's Shia middle class could provide new leadership to the Shia opposition in the coming years. We believe this relatively new class of businessmen, managers, technocrats, and civil servants is already playing an important role in community affairs. The Embassy judges that Bahrain's Shia middle and lower middle classes are the principal suppliers of manpower and ideas for the Shia religious revival. According to the Embassy, Bahrain's security forces are concerned that some middle-class commercial figures are active in Shia subversive groups. [REDACTED]

Bahrain's Shias and the Threat From Iran. Although Bahraini Shias have not actively supported terrorist activities by Islamic extremists, we believe that sympathy for religious extremism is growing. [REDACTED]

Estimates of the number of Bahrainis who support antiregime factions vary widely. [REDACTED]

[REDACTED] A US official claims that several hundred Bahrainis are members of clandestine groups, while as many as 5,000 Shias support their activities. [REDACTED]

The Meaning of Ashura

A US Embassy officer has described the emotional catharsis that culminates in the 10-day annual commemoration of the passion and death of Husayn ibn Ali, the Prophet's grandson, at the hands of a Sunni usurper. He relates that:

On the 10th day—Ashura—of the month of Muharram, Bahrain's Shias course through city and village streets to lament the murder of Husayn, grandson of the Prophet, rightful successor and paragon of all virtue. Thousands of men march in ritual procession, beating their bared chests in rhythmic unison and chanting slogans of hatred against the villainous murderer Yazid and slogans of anguish that the saintly Husayn had been abandoned by the people of God. The thousands who chant and beat their chests in remorse are followed through the streets by many hundreds more who flagellate their backs with knife blades on lengths of chain, and they, in turn, are followed by hundreds more who brandish swords vowing vengeance while they beat their foreheads with the blade. The streets are lined with wailing women dressed in black who join the curses against the hated Yazid and his cohort. . . . This drama catches the breath of Westerners in Bahrain who have become accustomed to life in a quiet, peaceful community. It demonstrates graphically and frighteningly the undercurrents of religious fanaticism that exist all too closely beneath Bahrain's calm. To quote an Embassy officer who witnessed Ashura for us, 'the overwhelming smell of blood at the Shia march forces recognition of the power of this religion in Bahrain's life.' [REDACTED]

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Bahraini officials believe that the *IFLB* is the largest and most dangerous of the Iranian-backed subversive groups. According to the Embassy, the IFLB was founded by Abd al-Hadi Muhammad Mudarasi, an Iranian mullah with ties to the leadership in Tehran. Mudarasi served briefly as Khomeini's personal representative in Bahrain in 1979, and US officials say he attracted a following of mostly Arab religiously motivated young men. He was expelled from Bahrain for inciting public demonstrations after the overthrow of the Shah. Mudarasi subsequently organized, with Iranian help, the December 1981 coup attempt.

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Bahraini security officials have arrested Shias affiliated with the IFLB and uncovered cells in most of Bahrain's rural Shia communities as well as in Bapco, Bahrain Telecommunications Company, Bahrain Radio and Television, and the Sitra power station. Nevertheless, Mudarasi and other IFLB leaders continue to recruit young Bahraini Shias who travel to Iranian religious centers and Syria, and to rebuild their support base in Bahrain. [redacted]

to train and work together. [redacted]

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[redacted] Tehran favors the IFLB over the Dawa—Dawa leaders apparently honor Khomeini's rival for theocratic preeminence, Ayatollah Khoi, and have links to Iraq's Shia dissident community. We also believe that there may be a personal rivalry between Mudarasi and Qassim and that the Iranian's ability to sponsor terrorism in Bahrain depends on the political success of his backers in Tehran—who include Ayatollah Mohammad Shirazi, his uncle, and Ayatollah Montazeri, Khomeini's designated successor. If Mudarasi's sponsors are growing in influence—as they appear to be—then the IFLB leader could receive more support in his goal of overthrowing the Sunni regimes in Bahrain and the other Gulf states. [redacted]

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The Sunni Side of Fundamentalism. Sparked by the growth of Shia extremism, Sunni fundamentalist groups also seem to be growing in popularity in Bahrain and the other Gulf states. One such faction is the Sunni Islamic Call Party. It was founded in India in the 1930s and has been spreading through the Gulf states in the last decade. [redacted]

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[redacted] it has adherents in Saudi Arabia, Kuwait, Qatar, and Bahrain. Like the Shia fundamentalist factions, its goals include the creation of Islamic republics and the removal of corrupt leaders. It opposes coeducation, the sale of liquor, and other "immoral" Western influences. [redacted]

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We judge that the *Islamic Call (Dawa) Party* poses a greater long-term danger to Bahrain than does the IFLB. Unlike the IFLB, the Dawa is headed by a native Bahraini cleric, Isa Ahmad Qassim, and until 1984 was headquartered in the Shia village of Ad Diraz, under the cover of the Islamic Enlightenment Society. The local version of the Dawa Party was brought to Bahrain by Shia clerics studying in An Najaf, and we believe it has adherents among the country's traditional Shia leadership. Although it apparently has not conducted any operations against the regime, the Embassy reports it has an established cell structure and has infiltrated arms into Bahrain.

[redacted]
We believe they maintain links to other Dawa groups operating in the Gulf, including Kuwait, where the Dawa was responsible for the assassination attempt on the Amir of Kuwait last May. [redacted]

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Fissures in the Revolutionary Front. We judge that factionalism is the greatest weakness of the radical Shia groups. IFLB and Dawa leaders seem unable to put aside their personal rivalries and loyalties. We believe it unlikely they will join together in the near term to overthrow the regime, although Bahraini security officials report that Iran has urged the groups

[redacted]
If Sunni and Shia extremists were to band together, they would probably be a formidable challenge to the regime. We believe it more likely that the two groups will spark sectarian violence between Sunnis and Shias that the security forces could have difficulty containing. [redacted]

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Outlook

In our judgment, the Al Khalifa family's immediate hold on power is not threatened. Members of Bahrain's prominent trading families, the military, and the religious establishment—traditional and important sources of support for the regime—are unhappy and frustrated by the economic recession and by Al Khalifa behavior, but they do not appear to be organizing attempts to change government policies.

Still, we believe that the family's inability to deal effectively with the country's economic problems and sectarian tensions, as well as the precarious health of the regime's alleged strong man, Prime Minister Khalifa, raise questions about the long-term prospects for the ruling family's political survival.

If the recession deepens over the next two years—and we believe it will—complaints against the regime will grow. More Bahrainis from the favored upper and middle classes will criticize government spending and conspicuous consumption by the ruling family at a time when most Bahrainis will be feeling the pinch of recession. Charges of royal corruption by themselves will not lead to the overthrow of the Al Khalifa, but they would become one of the rallying cries for dissidents.

Tensions over how money is spent are also likely to deepen divisions within the family. We believe that a decision to increase military expenditures—even if Saudi Arabia and the Gulf Cooperation Council pay for them—will focus popular resentment, especially if it comes at the same time that social programs face budget cutbacks. If so, the Amir could join the Prime Minister in questioning the need for new weapon systems and expansion of the Bahrain Defense Force.

Bahrain's economic well-being will depend to a great extent on the continuation of Saudi aid as well as on the health of companies like Bapco and Aluminum Bahrain and the banking industry. We believe that Riyadh is unlikely to reduce financial assistance to Manama, but competition from Saudi refineries and banks will hurt Bahrain's economy. A Saudi decision to further restrict Bahraini financial activity in Saudi

***Bahrain Without the Al Khalifa—
Is There a Sunni Alternative?***

We see no effective leadership emerging from the nonroyal Sunni elite that is interested in or capable of challenging Al Khalifa rule or able to provide an alternative to the Shia opposition. Most prominent Sunni families prefer to maintain their uneasy alliance with the Al Khalifa regime to protect family wealth and influence rather than risk incurring royal wrath and the scrutiny of the security services.

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A few prominent Bahraini Sunnis speak out occasionally in public forums and to US officials against family greed, the regime's handling of the economy, and the prospects for a National Assembly in Bahrain. In a speech to the Sunni fundamentalist al-Islah Society last spring, Hassan Fakhro, a prominent Sunni businessman who once headed the Bahrain National Oil Company, criticized government economic development policy. Fakhro told US officials that Bahrain's economic outlook was gloomy and chastized the regime for not opening up the political process. Other businessmen and some government officials, including the Minister of Finance and National Economy, described by the Embassy as a protege of the Prime Minister, have complained to US officials over the last year about waste in government spending, particularly on defense items, and the need for some form of parliamentary body.

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The Al Khalifa appear unaware or unconcerned about the level of political grumbling among the Sunni elite. The Embassy once characterized the Al Khalifa's view of this important support group as contemptuous. In our judgment, the Al Khalifa are making no special effort to cultivate their support and risk alienating the Sunni merchant establishment by competing directly with them for limited business investments.

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Arabia would have a disastrous impact on the fledgling banking industry. More closures or cutbacks in staffing by Bahrain's banks or basic industries would cut off the few areas of equal employment opportunity for all Bahrainis. []

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We believe that Bahrain's employment problems are likely to persist for the rest of the decade and could worsen significantly. Manama will claim publicly that it can offer a job to any Bahraini who seeks one, but it will continue to insist privately that Shias be excluded from sensitive positions in government and the private sector. Because Sunnis cannot be found in sufficient numbers or with adequate skills, more foreign workers will be hired, particularly for defense and security jobs. At a time when unemployment is growing, this practice will come under increasingly sharp public criticism. []

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We believe that the threat to Bahrain's stability from Shia extremists is growing, although the dissident factions lack a leader and a catalyst for a successful revolution. Isa Ahmad Qassim, the founder of both the Islamic Enlightenment Society and the Islamic Call Party in Bahrain, could become such a leader. The government will probably be reluctant to imprison or exile him, perhaps fearing that to do so would rally popular support around a new martyr. []

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The failure of the Shias to develop a common, communitywide institution or leadership stems as much from government vigilance as Shia fecklessness. We believe, however, that stricter repression of the Shias by Bahrain's security services could provide the spark needed to organize the Shia masses into a single group led by a local version of Khomeini. Security officials could, we believe, contain a single act of terrorism by the IFLB or Dawa but probably would not detect the operation beforehand. They admit they would be hard pressed to contain widespread rioting or civil disorder if the Shias were to take to the streets. []

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Implications for the United States

The United States has had close political and military relations with the ruling family in Bahrain since 1949 when Manama first extended home porting privileges to the US Navy. Although some privileges were

withdrawn in the mid-1970s, Bahrain continues to allow ship visits and offer its facilities to the US Navy and to CENTCOM. In the past few years the relationship has grown even closer with Manama's decision to purchase US military equipment and to use the US Army's Corps of Engineers to supervise construction of a new airbase. These relationships are mostly with the Crown Prince and the Bahrain Defense Force, however, and US interests remain dependent on the continued favor of the Amir and the Prime Minister. []

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We believe that a shift in power within the Al Khalifa family would not significantly alter Bahrain's relations with Washington. The Al Khalifa want the protection that the US military presence gives it, although senior family members worry that US regional policies—particularly perceived support for Israel—put them at serious risk both from Iran and

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from domestic opposition elements. Because of these concerns, we believe it unlikely that they will agree to expand the defense relationship or conclude new agreements on pre-positioning US equipment. Manama, however, will continue to look to Washington for assurances of support against an Iranian threat while it relies on Riyadh to fund military programs.

We do not believe that Bahrain's likely normalization of relations with Moscow will degrade relations with the United States. Manama's assumption, however, that the Soviets had a hand in the coup that resulted in the ouster of South Yemeni President Ali Nasir Muhammad al-Hasani in January 1986 will probably delay normalization of relations until next year. Manama will remain suspicious of Soviet intentions in the Persian Gulf and will not be eager to receive Soviet diplomats. According to the US Embassy, however, following recognition of the USSR by Oman and the United Arab Emirates last fall, the Amir has hinted that Bahrain does not want to be the last Gulf state to do so.

In our view, US relations with Bahrain would suffer if the Al Khalifa family were forced to share significant power with nonroyal Bahrainis. A new government with commoners in important posts or with an elected National Assembly would probably be more nationalistic in outlook. It probably would seek a less conspicuous US presence in Bahrain by cutting back existing security arrangements. If popular disaffection grew, a new government probably would also put distance between itself and Washington in a bid for popular support.

The greatest danger to US interests in Bahrain comes from the extremist Shias backed by Iran. Although the radicals have focused their operations on Bahraini targets so far, they could direct attacks against the large US diplomatic and military presence in Bahrain as part of their efforts to discredit the Al Khalifa. A takeover of the government by Shia extremists would certainly cause a rapid deterioration in relations with the United States and would further endanger US personnel and facilities in the country. Moreover, a radical Shia takeover could precipitate conflict with Saudi Arabia. Riyadh is committed to defending a Sunni regime in Bahrain and would probably expect Washington to support its efforts to prop up Al Khalifa rule.

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Appendix A

The Bahraini-Saudi Causeway:
Highway to Heaven and Hell

The decision in 1980 to build a link between Bahrain and the Saudi mainland reflects Saudi concern about the security of the Al Khalifa government. Worried that resurgent Islamic fervor among Bahrain's Shias might incite rebellion, the Saudis suggested building a causeway that would make possible the rapid deployment of Saudi ground forces to Bahrain. The causeway's opening is being delayed by disputes over security, customs, and social issues, [redacted]

[redacted]

Background

Construction of the \$600 million, 25-kilometer project, begun in late 1981, has been fully funded by Saudi Arabia. US officials say work on the four-lane highway, which will run from Bahrain's west coast to Al Khubar on the Ash Sharqiyah (Eastern Province) coastline of Saudi Arabia near Dhahran, should be completed in April. The causeway consists of alternating sections of bridge and embankment—five bridges and seven embankments—plus two artificial islands. [redacted]

A public corporation to manage the causeway was named in December. Headed by the Saudi Minister of Finance and National Economy Muhammad Aba al-Khayl and Bahrain's Minister of Development and Industry Yusif al-Shirawi, the corporation will determine immigration and customs procedures and future development plans. Limits on use of the causeway have not been announced, but US Embassy sources speculate that private cars may be banned, expatriate use may be restricted, or prohibitive tolls assessed to keep access limited. [redacted]

Security Problems

We believe that security officials on both sides of the causeway are most concerned about the possibility of expanded contacts between members of the large Shia

[redacted]

communities in Bahrain and Saudi Arabia. Bahrain's history of Shia tensions and the Iranian-inspired coup attempt in Manama in 1981 heightened Riyadh's fears about increased religious zealotry and potential dissent among the 400,000 Saudi Shias in the kingdom's Eastern Province. [redacted]

[redacted]

There is some evidence of cooperation between Saudi and Bahraini Shias in antigovernment subversion that could be facilitated by the causeway. [redacted]

[redacted]

[redacted] In the only reported meddling on the causeway itself, a Bahraini who had lived in Saudi Arabia was arrested in late April 1985 for attempting to plant explosives near the pilings on the Saudi end of the project. We believe the Saudis will try to ensure maximum control over possible dissidents filtering into the Eastern Province, where there is a heavy concentration of potential military and economic targets. Saudi security personnel also will probably step up harassment of Eastern Province Shias as a warning when the causeway opens. [redacted]

Economic Shifts

Although the economic impact of the causeway is uncertain, hopes are high, particularly in Bahrain, that it will be a development and financial boon. US officials report that Bahrain's business community

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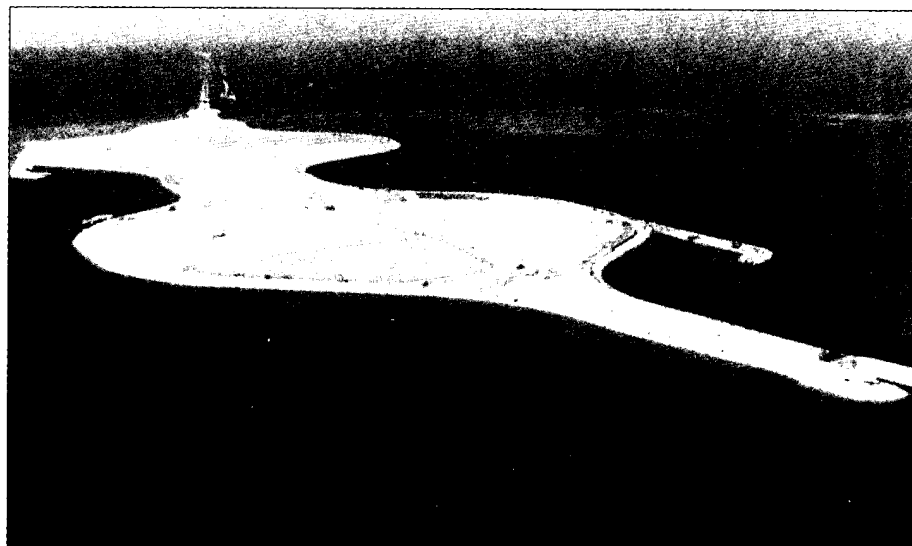
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Construction of the causeway included a manmade island. []



United Press ©

anticipates the causeway will stimulate industrial growth by giving local industry access to a much larger market. Bahraini landlords hope the causeway will increase land values and the demand for office, residential, and hotel space. Manama is also planning a sizable expansion of its airport facilities and expects an increase in port traffic as Bahrain becomes a more important transshipment point. Labor officials expect an improvement in Bahrain's labor market when Bahrainis can commute to jobs in Saudi Arabia. []

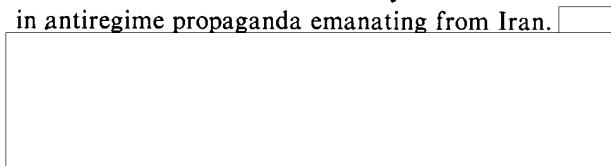
We see little reason for such optimism. Bahrain's industries face competition from Saudi companies, while a decision by the Saudis to restrict Bahraini access to its financial markets could keep the banking as well as the real estate market in Bahrain depressed. Moreover, small shopkeepers as well as members of Bahrain's wealthy merchant families are worried that easy consumer access to cheaper Saudi markets will cut into their profits. This will be especially true for consumer durables and products like gasoline that are subsidized in Saudi Arabia but not in Bahrain. []

Social Strains

Much of the speculation on the impact of the causeway has centered on the contrast between puritanical Saudi Arabia and the relatively liberal environment of Bahrain. Bahrain has often been described in the

international press as Saudi Arabia's playground, with its bars and nightclubs easily accessible to Saudi jetsetters. Bahraini businessmen are eager to capitalize on the tourist trade, but vacationing Saudis frequently cause trouble on the small island. The Embassy in Manama says many drink too much and cannot restrain themselves around Western women. US officials say Bahraini authorities are concerned about an increase in drunk driving if Saudis drive onto the island via the causeway. These Saudis now number in the hundreds on weekends, and many Bahrainis fear that this will increase to thousands once the causeway is open. []

Bahrain is likely to come under increasing pressure from Sunni and Shia fundamentalists in Bahrain as well as in Saudi Arabia who object to the permissive social climate. According to US officials, many Bahrainis are concerned that Bahrain will become a brothel for Saudi Arabia—already a common theme in antiregime propaganda emanating from Iran. []



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Appendix B**Bahrain's Left:
No Signs of Life**

Bahrain's two leftist factions—the Popular Front for the Liberation of Bahrain (PFLB) and the National Front for the Liberation of Bahrain (NFLB)—have been unable to take advantage of current economic woes or growing Shia dissatisfaction to rebuild their organizations. We agree with the judgment of Bahrain's officials that neither poses an immediate threat to the country's stability, although their activities could become disruptive over the long term.

[redacted]

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The PFLB and the NLFB are pro-Soviet, Marxist parties that have been active in Bahrain for more than two decades. Their supporters include Sunnis and Shias. Most of the leadership apparently has been Sunni, while the rank-and-file members have been predominantly Shia. Both groups receive assistance and safehaven from Syria and some aid from the USSR. In recent years they have concentrated their efforts on disgruntled youth and labor but have had little success in attracting recruits or building networks inside Bahrain. They have not grown in membership in more than a decade. The Embassy estimates that the NLFB has less than 700 members in Bahrain, while the PFLB probably numbers less than 500.

[redacted]

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We believe that the leftist groups' failure to attract a new audience reflects a declining interest in their ideology. Sunni and Shia youth are more interested in religious revivalism than class struggle, while workers appear to be shunning both leftist trade union activities and the government-sanctioned labor committees that have been set up in the larger industrial plants.

[redacted]

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Appendix C

Bahrain's Liberation Movements:
A Framework for Insurgency

The following list of indicators, developed in a CIA study of incipient insurgencies, is intended as a framework to help judge if dissident factions have or are developing the capability to oppose the regime. According to the study, successful insurgent groups are functionally organized, their ideology is simple, and

their goals are easily obtained. We believe that, measured by this framework, none of the major Bahraini liberation groups threatens the regime, but the two Islamic fundamentalist organizations are developing the capability to challenge the Al Khalifa government and become full-fledged insurgencies.

Characteristic	<input type="radio"/> High probability	Islamic Front for the Liberation of Bahrain	Islamic Call Party (Dawa)	National Front for the Liberation of Bahrain	Popular Front for the Liberation of Bahrain
	<input type="radio"/> Moderate probability				
	<input type="radio"/> Low probability				
Numbers of young and/or skilled people recruited for training or indoctrination in Iran, Syria, Lebanon, or the USSR	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Ideological proselytizing in rural areas, with overt political preaching and demonstrations during Ashura	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Contacts with known extremists in Iran, Syria, Saudi Arabia's Eastern Province, or Lebanon	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Discovery of "cells" in urban areas	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Reports of people receiving terrorist/guerrilla training	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Discovery of arms and materiel caches, collections of police uniforms or military clothing, stockpiling of explosives	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Evidence that a group has access to or has stolen weapons, amateur band transceivers, radios, directional antennas, printing presses	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Evidence of robberies, kidnappings for ransoms, or other crimes	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Evidence of money, arms materiel, or safehaven provided by foreign governments or insurgent groups	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Use of violence, including bombings, attacks against the ruling family, government personnel or strategic facilities, or foreign-owned property	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Reports of infiltration into the government, labor unions, or social clubs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Terrorist attacks in foreign countries directed against Bahrain's diplomatic community	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Production and circulation of radical propaganda	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Establishment of front organizations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Evidence that the number of sympathizers—people who are not formal members but who tacitly support the radicals—is growing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

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